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Rethinking Tax Rules

By Mike Causey Washington Post Staff Writer

roposed changes in pension tax rules could cost the federal government millions of dollars, disrupt operations and push thousands of key workers into premature retirement during the next three months, three members of Congress who represent many of the workers contend.

The legislators, Reps. Frank Wolf (R-Va.) and Steny Hoyer (D-Md.) and Sen. Paul Trible (R-Va.), said reports from federal personnel directors have convinced them that a presummer government retirement stampede would be made possible by a provision in the tax reform bill passed by the House. They have asked the Senate Finance Committee, now working on its own tax plan, to exclude that provision from any legislation it approves.

The House's tax reform bill would eliminate the recovery rule starting July 1. The rule allows workers who contribute to their pension plans—including 14 million federal, state and local government workers and teachers—to receive tax-free pension benefits until they recover the already-taxed money they paid in.

Most federal workers recover their contributions in about 18 months, but current rules allow this process to take up to three years.

Under the House tax reform plan, a prorated portion of an employe's pension would be subject to immediate taxation. If the House bill becomes law, federal employes would have to be retired by June 3 to escape immediate taxation.

The Federal Government
Service Task Force, a sort of
congressional civil service
caucus, estimates that the
change could mean a tax bite of
up to \$10,000 in the first three

Many federal workers use the tax-excused period after retirement to cash in investments or take other jobs so they will be taxed at lower rates, because their annuities don't count as income.

In a letter to Senate Finance Committee Chairman Bob Packwood (R-Ore.), Wolf, Hoyer and Trible—who represent about one of every 10 federal workers—say retirements triggered by the pension tax change would disrupt programs in many agencies, and could shave this year's tax collections by the IRS.

They said that 10 percent of the IRS' top career executives retired in the last three months, largely in response to the annuity tax proposal. An additional 10 percent "have indicated their plans to retire to avoid the tax penalty," the legislators said in a joint statement.

They quoted the personnel director at the Central Intelligence Agency as saying that employes there were "keenly aware of this tax rule change... and indications are that a significant number would retire to avoid the change. The potential loss of experience in our intelligence cadre... would require the premature elevation of officers" lacking in experience;

State Department officials told Wolf, Hoyer and Trible that more than 70 percent of their senior foreign service employes are eligible to retire, and said a mass exodus "would unquestionably strain our ability to manage the department."

FBI officials said bureau activities "would be severely hampered" if a large number of employes retired at one time. They told the legislators that it would produce a "severe experience drain which will take several years to overcome."

NASA officials were reported to have said that nearly half of their top scientists were eligible to retire and the many could be expected to qu'x if the tax change becomes law.